

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION  
OF  
NORTH DAKOTA VISION SERVICES, INC.  
FARGO, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 1998**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

**North Dakota Vision Services, Inc.**  
**4510 13<sup>th</sup> Avenue SW**  
**Fargo, ND 58121**

as of December 31, 1998, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official  
seal at my office in the City of  
Bismarck, this \_\_\_\_\_ day of  
\_\_\_\_\_, 2000.

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Glenn Pomeroy  
Commissioner of Insurance

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Fargo, North Dakota  
November 11, 1999

Honorable Glenn Pomeroy  
Commissioner  
North Dakota Insurance Department  
600 East Boulevard Avenue  
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and the statutory requirements of the State of North Dakota, a statutory examination has been made of the books, records, and financial condition of

**North Dakota Vision Services, Inc.**  
**4510 13th Avenue SW**  
**Fargo, ND 58121**

and the report thereon is respectfully submitted.

## **INTRODUCTION**

North Dakota Vision Services, Inc., hereinafter referred to as the "Company" was last examined as of December 31, 1994, for the period from January 1, 1990, through December 31, 1994, by Examiners of the North Dakota Insurance Department with assistance from the audit firm, Eide Helmeke, P.L.L.P.

The current statutory examination was conducted by Examiners from the North Dakota Insurance Department. The statutory examination was performed at the Company's home office in Fargo, North Dakota.

## **SCOPE OF STATUTORY EXAMINATION**

This examination was conducted pursuant to N.D. Cent. Code § 26.1-17-32 and covers the four-year period from January 1, 1995, through December 31, 1998, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. During the course of this examination, assets were verified and valued and all known liabilities were established in accordance with statutory requirements and procedures recommended in the National Association of Insurance Commissioners Examiners Handbook. The extent of review on any given account or activity was based upon its relationship and importance to the total operation.

Accounting and other pertinent records were reviewed and test-checked to the extent deemed appropriate and a general review of the Company's operations, including market conduct activity, was conducted.

Work papers provided by the Company's independent auditor, EideBailly, L.L.P., were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

Detail pertaining to the various phases of the examination are set forth under the appropriate caption in subsequent sections of this report.

All recommendations contained in the prior examination report dated December 31, 1994, have been adequately addressed by the Company except as follows:

**Recommendation**

It is recommended that conflict of interest forms be completed on an annual basis by all board members, officers, and responsible employees and that the completed statements be kept on file for inspection by this Department.

**Response**

The conflict of interest statements for years 1997 and 1995 were not available for inspection.

## **HISTORY**

**General**

The Company was incorporated on March 10, 1961, under the laws of the State of North Dakota relating to nonprofit corporations. It commenced business on January 1, 1974, and is further governed under N.D. Cent. Code Chapter 26.1-17 pertaining to nonprofit vision service corporations. The period of its duration is perpetual.

**Membership**

The membership of the Company shall be limited to optometrists and ophthalmologists who are duly licensed to practice their profession, who comply with the rules and regulations of the Company, and who are practicing in North Dakota. Optometrists and ophthalmologists who comply with the above provisions but are not practicing in North Dakota may be nonvoting members.

Five members in good standing in attendance at each annual meeting constitutes a quorum. During the years under examination, the annual meetings were held on the following dates:

November 3, 1995  
October 25, 1996  
October 24, 1997  
October 30, 1998

A quorum was present at each annual meeting.

### **Growth of the Company**

The growth of the Company for the years since 1994 is shown in the following schedule, which was prepared from the Company's Annual Statements for the years indicated:

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Unassigned Funds</b>
1995*	\$646,827	\$226,230	\$420,597
1996*	638,058	228,154	409,904
1997*	618,552	252,203	366,350
1998**	644,791	308,133	336,658

\* Extracted from Company annual statement

\*\* Determined by statutory examination

## **MANAGEMENT AND CONTROL**

The management of the Company's affairs, business, and property is vested in a Board of Directors, which shall consist of nine people, six of whom will be elected at large and three of whom shall be officers of the Company. Five of the nine shall be duly licensed optometrists, all of whom shall be elected in accordance with the state law. Except for the optometrists, directors need not be members.

The term of the six elected members of the Board of Directors, after the initial term, shall be for a period of three years and these terms shall be staggered so that two directors will be chosen annually at the annual meeting. The three ex-officio members shall serve until their successors are elected and qualified.

### **Directors**

As noted in the Company minutes, directors serving the Company at December 31, 1998, were as follows:

<b>Name</b>	<b>Term Expires</b>	<b>Address</b>
Michael W. Emmerich, O.D.	1999	Grand Forks, ND
Don W. Gunhus, O.D.	2000	Fargo, ND
Edwin J. Gerhandt	2001	Bismarck, ND
Wyman A. Jorgenson, O.D.	1999	Wahpeton, ND
Douglas M. Nordby, O.D.	2000	Watford City, ND
David D. Remillard	1999	Minot, ND
Avery T. Jones	2001	Grand Forks, ND
John N. Helmers	2000	Mandan, ND

Name	Term Expires	Address
Daniel C. Little, O.D.	2001	Mandan, ND

## **Officers**

The Bylaws provide that the members shall elect by secret ballot a President, a Vice President, and a Secretary-Treasurer.

Officers serving on December 31, 1998, were as follows:

<b><u>Officer</u></b>	<b><u>Title</u></b>
Don W. Gunhus, O.D.	President
Avery Jones	Vice President
David D. Remillard	Secretary
Robert Carlson	Treasurer

## **Conflict of Interest Procedures**

The Company requires the members of the Board of Directors to file a conflict of interest statement on an annual basis. The Company could not locate the conflict of interest statements for the years 1995 and 1997.

**It is recommended that the Company retain conflict of interest statements for inspection and review by the Examiners for the period covered by statutory examination.**

## **Corporate Records**

A review was made of the corporate records including the minutes of the membership and Board of Directors meetings held during the period under review.

The August 27, 1997, minutes of the Board of Directors disclose the review of the previous statutory examination.

At its August 27, 1997, meeting the Board of Directors approved an amendment to Article 6 of the Articles of Incorporation changing the name of the registered office and agent of the Company.

The following exceptions were noted:

- The acquisition of investments was not approved by the Board of Directors or an Investment Committee appointed for that purpose during the last three years covered by this examination. N.D. Cent. Code § 26.1-05-18 requires the Board of Directors or a board-appointed Investment Committee to authorize an investment transaction before it is made.

**It is recommended that the Company implement a procedure to provide for quarterly authorization of investment purchases and sales by the Board of Directors or an Investment Committee appointed by the Board.**

- The officers of the Company were elected by the Board of Directors rather than the members of the Company at its annual meeting as required in Article IV, Section 2 of the Bylaws.



**It is recommended that the members elect the officers of the Company at the annual meeting of the membership as required by Section 2 of Article IV of the Bylaws.**

## **AFFILIATED COMPANIES**

Affiliated companies include Noridian Mutual Insurance Company (formerly Blue Cross Blue Shield of North Dakota) and its subsidiaries, Northern Capital Management Company, Coordinated Insurance Services, Inc., and Twenty First Century Information Solutions, Inc. Northern Capital Management Company also has subsidiaries of NCM Properties, Inc., Payroll Solutions, L.L.C., and Northern Capital Trust Company. Coordinated Insurance Services, Inc., also has a subsidiary of Benefit Plan Administrators, Inc. Other affiliates of North Dakota Vision Services, Inc., include Lincoln Mutual Life and Casualty Insurance Company, The Dental Service Corporation of North Dakota, and the Comprehensive Health Association of North Dakota.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is protected from loss against insurable hazards through the Noridian Mutual Insurance Company package of insurance. Coverages are as follows:

1. Noridian Mutual Insurance Company and affiliated companies are named insureds on a financial institution bond providing a single loss limit of liability of \$2,000,000 for loss resulting from dishonest or fraudulent acts committed by an employee.
2. Directors and Officers Liability
3. Commercial General Liability
4. Commercial Property
5. Auto
6. Umbrella
7. Valuable Papers
8. Boiler and Machinery
9. Equipment Floater
10. Electronic Data Processing
11. Communications Liability
12. Workers Compensation

## PENSION AND INSURANCE PLANS

The Company does not have any employees and consequently has not adopted any employee welfare plans.

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Advertising

A review of advertisements for compliance with state statutes was conducted with no exceptions noted.

### Premiums

The Company contracts with subscribers to provide a broad range of vision services in accordance with a group contract which may contain the following basic plans:

Basic Code	Benefits
01	Full Service - \$40 frame allowance Group Size – 25 or more contracts
02	Full Service - \$40 frame allowance Group Size – 3-24 or more contracts
04	Full Service – no frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
10	Full Service - \$80 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
26	Full Service - \$125 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
27	Full Service - \$150 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
28	Full Service - \$40 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
29	Full Service - \$60 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
30	Full Service - \$80 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
31	Full Service - \$100 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts

Basic Code	Benefits
32	Full Service - \$125 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
33	Full Service - \$150 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
36	Full Service - \$60 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts
37	Full Service - \$100 frame allowance Group Size – 25 or more contracts Group Size – 3-24 or more contracts

### **Territory and Plan of Operation**

The Company is authorized to transact the business of a nonprofit vision service association in the State of North Dakota only.

The Company markets its product primarily through 23 captive agents of Noridian Mutual Insurance Company. The Company also has eight nonaffiliated brokers that market the Company's products.

### **Consumer Complaints**

The Examiners reviewed the customer complaint register for Noridian Mutual Insurance Company which contains customer complaints involving Noridian and its affiliates. The register did not contain any complaints relating to the Company.

## **ACCOUNTS AND RECORDS**

The Company has contracted with Noridian Mutual Insurance Company for accounting, administrative, and related services.

The contract was negotiated in 1974 and provides that Noridian Mutual Insurance Company be reimbursed by the Company for sales and administrative services rendered on the basis of its reasonable costs.

The agreement calls for Noridian Mutual Insurance Company to provide the following services:

1. Establish subscriber contract benefits.
2. Recommend subscription rates for contract benefits and obtain Company approval.
3. Establish enrollment regulations governing the acceptance of the Company's subscribers.

4. File the Company's contracts with the State Insurance Department as required.
5. Issue printed subscriber contracts to enrolled groups and identification cards to all the Company's subscribers.
6. Market the Company's contract by providing the services of Noridian's marketing staff and by advertising the availability of such a contract.
7. Issue billing notices to the Company's subscribers and be custodian of such payments.
8. Provide administrative services required to pay the Company's claims.
9. Provide professional relations services between the Company and participating dentists.
10. Ensure judicious utilization of the Company's contract benefits by establishing programs to discourage abuse of such benefits.
11. Serve the Company's subscribers by answering all subscribers' inquiries relating to available benefits, subscription rates, and payments of claims.
12. Provide for the accounting of all the Company's income and expense in accordance with commonly accepted accounting procedures, prepare an annual budget for the Company, and provide Company officials with periodic financial reports.
13. Maintain statistical data for the Company which will remit the establishment of actuarially sound subscription rates.
14. Provide ongoing professional management of the program and provide for research and development to maintain the Company's program in accordance with current vision practices.

During the four-year period under review, the Company's actual reimbursed costs incurred to Noridian Mutual Insurance Company (Noridian) were determined to be as follows:

<u>Year</u>	<u>Amount</u>
1995	\$179,985
1996	239,080
1997	263,863
1998	301,951

The following exceptions in regard to Company accounts and records were noted:

1. The Company did not complete Part 3 "Analysis of Expenses" of the Underwriting and Expense Exhibit in accordance with NAIC *Annual Statement Instructions*. The NAIC requires a company that pays any affiliated entity for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items (salaries, rent, postage, etc) as if these costs had been borne directly by the company.

Management, administration, or similar fees should not be reported as a one-line expense. In its 1998 Annual Statement, the Company reported expenses incurred under the administrative services agreement with Noridian on line 17 "Outsourced services including EDP, claims, and other services."

**It is recommended that the Company allocate expenses incurred under management or administrative agreements to the appropriate expense classification as if those costs had been borne directly by the Company.**

2. The Company did not retain a copy of the files supporting the amounts reported in its 1998 statutory Annual Statement for claims paid and premiums written. The Company was able to recreate those files for the Examiners within a reasonable range of difference. The NAIC requires companies to print out all transactions and other input data, along with detailed files as of year end, to allow tracing to original records. If such information is not printed, then it must be available for printout.

**It is recommended that the Company retain a copy of the files supporting Annual Statement amounts or be able to create the files supporting amounts reported in the statutory Annual Statement.**

## **FINANCIAL STATEMENTS**

The Financial Statements section includes the following:

Statement of Assets, Liabilities, Reserves, and Other Funds as of December 31, 1998  
Underwriting and Investment Exhibit for the Year Ended December 31, 1998  
Reconciliation of Reserves and Unassigned Funds for Years Ending December 31,  
1995 through December 31, 1998  
Analysis of Examination Changes

**North Dakota Vision Services, Inc.**  
**Statement of Assets, Liabilities, Reserves, and Other Funds**  
**as of December 31, 1998**

	<b>Ledger Assets</b>	<b>Non- Ledger Assets</b>	<b>Assets Not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$113,538			\$113,538
Stocks:				
Common stocks	46,124	\$13,863		59,987
Cash	335,576			335,576
Short-term investments	35,894			35,894
Uncollected premiums	12,331			12,331
Amounts receivable relating to uninsured accident and health plans	84,000			84,000
Guaranty funds receivable or on deposit	498			498
Interest, dividends, and real estate income due and accrued	2,967			2,967
Prepaid software	4,358		\$4,358	
Totals	<u>\$635,286</u>	<u>\$13,863</u>	<u>\$4,358</u>	<u>\$644,791</u>

**North Dakota Vision Services, Inc.**  
**Statement of Assets, Liabilities, Reserves, and Other Funds**  
**as of December 31, 1998**

Claims unpaid	\$106,000
Unpaid claim adjustment expenses	10,000
Unearned premiums	27,054
Taxes, licenses, and fees	13,895
Liability for amounts held under uninsured accident and health plans	84,000
Payable to parent, subsidiaries, and affiliates	66,964
Deferred accounts receivable	146
Unclaimed property liability	<u>74</u>
 Total liabilities	 \$308,133
Unassigned funds	<u>336,658</u>
 Total	 <u><u>\$644,791</u></u>

**North Dakota Vision Services, Inc.  
Underwriting and Investment Exhibit  
for the Year Ended December 31, 1998**

**Underwriting Income**

Premiums earned		\$1,814,416
Deductions:		
Claims incurred	\$1,608,249	
Expenses incurred:		
Claim adjustment	152,648	
Administrative	145,025	
Soliciting	48,238	
	<hr/>	
Total underwriting deductions		1,954,160
		<hr/>
Net underwriting gain or (loss)		\$ (139,744)

**Investment Income**

Net investment income earned	\$22,042	
Net realized capital gains or losses	8,695	
	<hr/>	
Net investment gain or (loss)		30,737

ASC/Cost plus premium income	\$1,148,096	
ASC/Cost plus health claims expense	(1,065,551)	
	<hr/>	
Net other income		82,545
		<hr/>
Net gain or (loss) before federal income taxes		\$ (26,462)
Federal income taxes incurred		0
		<hr/>
Net income		<u><u>\$ (26,462)</u></u>



**North Dakota Vision Services, Inc.**  
**Reconciliation of Reserves and Unassigned Funds**

	<b>December 31</b>			
	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>
Reserves and unassigned funds, December 31, previous year	\$366,350	\$409,903	\$420,597	\$436,788
Net income	(26,462)	(40,574)	(9,516)	(15,664)
Net unrealized capital gains or (losses)	(5,409)	(5,160)	960	6,052
Change in nonadmitted assets	2,179	2,181	(2,138)	(6,579)
Net change in reserves and unassigned funds for the year	\$(29,692)	\$(43,553)	\$(10,694)	\$(16,191)
Reserves and unassigned funds, December 31, current year	\$336,658	\$366,350	\$409,903	\$420,597

**Analysis of Examination Changes  
as of December 31, 1998**

Description	Annual Statement	Per Examina- tion	Surplus Change	
			Increase	Decrease
<b><u>Liabilities</u></b>				
Claims unpaid	\$156,000	\$106,000	\$ 50,000	
Taxes, licenses, and fees		13,895		\$(13,895)
Federal income taxes	13,895		13,895	
Premium deposits made by applicants rejected or not as yet accepted as members or subscribers	28,809		28,809	
Vision counter account	47,412		47,412	
Payable to parent, subsidiaries, and affiliates		66,964		(66,964)
Total examination changes			<u>\$140,116</u>	<u>\$(80,859)</u>
Reserves and unassigned funds per annual statement		\$277,401		
Reserves and unassigned funds per examination		336,658		
Increase per examination		<u>\$ 59,257</u>		

## NOTES TO FINANCIAL STATEMENTS

### Assets

#### Bonds

The admitted value of bonds was determined to be \$113,538 or the same amount as reported by the Company in its 1998 Annual Statement. At December 31, 1998, all of the bonds were held by the Northern Capital Trust Company under a revocable trust agreement. It was noted that the trust agreement does not contain the indemnification or replacement provisions recommended by the NAIC.

**It is recommended that the Company amend its trust agreement with Northern Capital Trust to include all of the safeguards and controls required by the NAIC *Financial Examiners Handbook*.**

During the period under examination, the Company periodically invested its funds in securities that did not qualify as authorized investments except under N.D. Cent. Code § 26.1-05-19 (33), commonly known as the basket clause. The following represent examples of such investments noted by the Examiners:

- Investments in common stock in entities that did not have either the earnings or the experience needed to qualify as an authorized investment except under N.D. Cent. Code § 26.1-05-19 (33).
- Investments in common stock in foreign corporations, which do not qualify as authorized investments except under N.D. Cent. Code § 26.1-05-19 (33).

The Company does not maintain a list of investments treated as admitted assets using the provisions of the basket clause. Without a schedule to monitor those investments, the possibility exists that the Company may improperly acquire unauthorized investments in excess of basket clause limitations.

**It is recommended that the Company maintain a list of assets admitted under the basket clause for the purpose of determining compliance with the basket clause limitations.**

#### Claims Unpaid

The reserve for claims unpaid was determined by this examination to be \$106,000 or \$50,000 less than the reserve for claims unpaid reported by the Company in its 1998 Annual Statement.

#### Taxes, Licenses, and Fees Due or Accrued

The liability for taxes, licenses, and fees due or accrued was determined by this examination to be \$13,895 or \$13,895 more than that reported by the Company. In its 1998 Annual Statement, the Company inadvertently reported the liability for taxes, licenses, and fees due or accrued on line 6b - "Federal Income Taxes."



Payable to Parent, Subsidiaries, and Affiliates

The Examiner reclassified the following two liabilities under this caption:

Vision Counter Account	\$38,155
Other Expenses	<u>28,809</u>
Total	<u>\$66,964</u>

The foregoing items represent amounts payable to Noridian Mutual Insurance Company. It is noted that in its 1998 Annual Statement, the Company inadvertently classified the \$28,809 on line 7 as "Premium Deposits Made by Applicants Rejected or Not as Yet Accepted as Members or Subscribers" rather than as "Other Expenses Due or Accrued."

The balance in the Vision Counter Account was determined by this examination to be \$38,155 or \$9,257 less than the amount reported by the Company. The difference represents self-funded claims paid in 1998 and not recorded in the Vision Counter Account in 1998.

**It is recommended that the Company classify unreimbursed expenditures on behalf of the company by a parent, affiliate, or subsidiary or amounts owing through other intercompany transactions as "Payable to Parent, Subsidiaries and Affiliates."**

## CONCLUSION

The financial condition of the Company, as of December 31, 1998, as determined by this examination is summarized as follows:

Admitted Assets	<u>\$644,791</u>
Total Liabilities	\$308,133
Reserves and Unassigned Funds	<u>336,658</u>
Liabilities, Reserves, and Other Funds	<u>\$644,791</u>

Since the last examination conducted as of December 31, 1994, the Company's admitted assets have increased \$51,279, its total liabilities have increased \$151,409, and its reserves and unassigned surplus has decreased \$100,130.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Tom Bowman, Examiner, CPA, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,

---

David Weiss, CFE  
Examiner

N.D. Insurance Department

## COMMENTS AND RECOMMENDATIONS

It is recommended that the Company retain conflict of interest statements for inspection and review by the Examiners for the period covered by statutory examination.

It is recommended that the Company implement a procedure to provide for quarterly authorization of investment purchases and sales by the Board of Directors or an Investment Committee appointed by the Board.

It is recommended that the members elect the officers of the Company at the annual meeting of the membership as required by Section 2 of Article IV of the Bylaws.

It is recommended that the Company allocate expenses incurred under management or administrative agreements to the appropriate expense classification as if those costs had been borne directly by the Company.

It is recommended that the Company retain a copy of the files supporting Annual Statement amounts or be able to create the files supporting amounts reported in the statutory Annual Statement.

It is recommended that the Company amend its trust agreement with Northern Capital Trust to include all of the safeguards and controls required by the NAIC *Financial Examiners Handbook*

It is recommended that the Company maintain a list of assets admitted under the basket clause for the purpose of determining compliance with the basket clause limitations.

It is recommended that the Company classify unreimbursed expenditures on behalf of the Company by a parent, affiliate, or subsidiary or amounts owing through other intercompany transactions as "Payable to Parent, Subsidiaries and Affiliates."